Trade as a Collective Action Problem

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Introduction

This article concerns the question whether free trade can be seen as a collective action problem. More specifically, I investigate whether one key characteristic of collective action is present in the case of trade: a common interest. I argue that while states at an aggregate level might have such a common interest, this does not automatically mean that governments will advance this interest in practice. Whether they will depends on accountability mechanisms *within* the state. I will show that within various accountability systems, there are reasons why governments will not advance the aggregate state interest. This opens up the floor to a more power-driven perspective on trade. I will first elaborate briefly on how the theory of collective action can be applied to trade and why states should have a common interest in free trade. Secondly, I will investigate why democratic and autocratic regimes respectively, might not advance this common interest. This will lead to my argument of viewing trade from a power perspective.

Trade as a collective action problem

One could think of trade as a collective action problem. The groundwork for this theory, as is well known, is laid by Olson (1971, 1982). Olson argues that some group of individuals may have a common interest in a public good, but that this is not a sufficient condition for the good to be provided because of free-riding incentives. Every individual faces incentives to not contribute to the costs of the good and reap the benefits of the contribution of others. The result is that the good will not materialize, unless certain specific conditions are met. In the case of free trade, this means that although all states have a collective interest in free trade, every state has an incentive to protect its own producers while benefitting from other states opening up their domestic markets. But what if they don't? Then we need to create international arrangements that allow weak states to protect themselves or be compensated for not doing so. In this regard, free trade might become a weapon of the strong against the weak. These incentives may explain the difficulties states experience in building a global or regional free-trade regime.

As we can see, one essential characteristic of a collective action problem is a *common interest*. This is a pre-condition for seeing any problem as a collective action problem. Applying this to trade, it seems clear what this common interest should be. Every basic economics textbook (for example Ray 1998) will tell us that free trade will rise aggregate welfare in all countries engaging in it. Of course, it will also tell us that while countries as a whole gain, some individuals or better still, not just individuals – major economic groups whose costs make them internationally uncompetitive within countries might loose from free trade. This point will be important later.

Before moving on to the question whether governments do advance this aggregate interest, I would like to make one more point. Within the collective action model, there seems to be little scope for power differences. Larger actors within the group do not gain disproportionally to their size. On the contrary, Olson (1971) argues that larger actors might bear a disproportionately large share of the costs, should the collective action problem be solved. The problem with the Olson model is that it is highly individualistic, and ignores all of the social mechanisms that exist based on altruism and long-term reciprocity, to moderate or even overcome free-riding. His analysis is often true, but it often is not. The interesting and difficult question is when and why it is true or is not. Why do people ever sacrifice their own interests for a common cause?

Do governments advance the aggregate state interest?

It is established that in theory states have a collective interest. To see trade as a collective action problem assumes that governments *do advance this state interest*. Whether they do this, depends on the relationship between the state and its citizens. What do citizens demand from the state? And how accountable is the state to these demands? This in turn partly depends on the regime-type; to what extent it is democratic or autocratic. Is there such a thing as a Pareto optimal collective interest that holds for everyone? I have yet to identify a policy change that does not disadvantage some people while advantaging others. Hence there are rare situations where governments can identify a universally valid 'collective interest' that they can satisfy; particular regimes identify their own goals and work to achieve them.

Their opponents try to discredit them in order to replace them. Optimally governments should attempt to manage compromises between conflicting interests – which is very much the case in trade policy where some groups (low cost exporters) might benefit from free trade, while others (high-cost local industries) might loose. Understanding how these processes work out is not helped by free-rider theory, because these negotiations are carried out by professionalised interest groups. What is crucial is differences in levels of influence over political decision-makers. I will investigate different regimes, ranging from perfect democracy to perfect autocracy and argue that reasons exist for the governments of each type *not* to advance its citizens aggregate interest in the case of trade. These regimes are of course ideal types and I do not claim that they exist in reality. However, they might be useful tools for our analysis.

Perfect democracy

First assume a perfect democracy, as a perfect political market. Every citizen has equal power to influence the government and the government is perfectly accountable to the majority of its citizens. Will this lead to a government advancing free trade? One problem might be: although the total *value* of free trade might be greater to society, there may not be a *numerical majority* of citizens benefitting from free trade. This raises the distribution problem – but it is difficult to see how we can say that society benefits when a majority of its members loses. This also raises problems about how we define the 'collective interest.' Therefore, this causes a perfectly democratic government to not advance the aggregate state interest of free trade.

But even if one assumes that a majority does have an interest in free trade or that the government taxes the 'winners' from trade to compensate the 'losers', (Note that the winners will often be foreigners and the losers nationals) this is why equitable trading relationships depend upon viable global governance – in this case the ability of the World Trade Organisation (WTO) to guarantee equitable outcomes. It is not clear that the state will advance this common interest. Rodrik (1998a) points out that the transaction costs of compensating the losers might greatly outweigh the aggregate benefits from trade. Furthermore, incomplete information about which individual may be a 'winner' or a 'loser' might stop [refrain] some of the beneficiaries of trade liberalization from supporting it. The necessary majority of citizens supporting free trade might not exist, even under these conditions.

Even in a perfect democracy, it is thus not clear that the government will advance the aggregate state interest of free trade. Begging the question, "Is it a state interest or a social interest, or are they the same?

Interest group democracy

A perfect democracy is [might] not be a very realistic assumption. In reality, interest groups are generally more powerful in determining policy than individuals. This allows for a government being disproportionally accountable to *some* of its citizens.

The first argument again comes from Olson (1982). Interest groups face their own collective action problems. Smaller groups have disproportionate power for collective action. This is very problematic when we are dealing with organised interest groups based on general class interests – business, workers etc. Peak organisations like the Trade Union Congress and Confederation of British Industries have immense influence because they have been able to mobilise the resources needed to overcome collective action problems.

Their limited size makes it easier to organize themselves, as the transaction costs are smaller, it is easier to create selective incentives, there is more social control and bargaining processes can be more binding. These limited interest groups are willing to make society incur disproportionate costs, in order to attain their own narrow goal. In the context of trade, this means that small, well-defined groups like industry lobbies, may organise more easily than large, diffuse groups (consumers). They can influence the government to refrain from advancing societies common goal, to attain their limited group benefit.

A second argument related to interest groups comes from Moe (1995). He emphasises that competing interest groups may hamper bureaucratic processes by putting in place inefficient institutions. This may also show why states may not effectively advance a common interest. Variables that determine the relative access to power of these interest groups may include; constitutional arrangements, wealth that enables them to organise, the existence of a mass base of people marginalised by existing arrangements. These issues look very different to weak producers living in Least Developing Countries (LDCs) than to strong ones living in Developed Countries (DCs).

Accepting that imperfections in the democratic process, allow some individuals or groups to have more influence on the government than others, increases the scope for a government in not advancing the aggregate interest of the state.

Accountability failure

This category of regimes includes all kinds of regimes that have an electoral democracy, but experience frequent accountability failure. Whereas in the previous category governments are more accountable to certain citizens than others, in this category the government ceases to be accountable to any of its citizens to a certain extent.

The World Bank (2004) highlights many ways in which a government might not be accountable to its citizens. Trade policy is a typical example of what the World Bank calls the "long route of accountability". Citizens must voice their wishes (for free trade) to the government, while the government needs to control the providing agencies (customs offices, and the allocation of foreign exchange). This long route of accountability has a high risk of failure, as the World Bank points out.

The risk of the providing agencies acting on their own behalf (extracting bribes before letting products into the country) is a realistic scenario in trade. The possibilities of holding the providers directly accountable (the "short route") are very limited. Again actual outcomes will be a function of levels of political capital in society – where strong economic pressure groups exist, and governments face re-election, outcomes will be determined by those that can persuade governments that they should do what they want. Many different variables influence the ability of elites or subordinate groups to influence or even capture power that will be contextually specific and a function of the levels of social and political capital in any society.

Failing accountability mechanisms create favourable conditions for elite capture. Rodrik (1998b) points out that trade policies might be especially prone to this, because it creates large flows of revenue in the form of tariffs. Failing accountability mechanisms make it likely that the government will not take on aggregate interest as its own.

Perfect autocracy

Let us now consider the final extreme: perfect autocracy. This would be a government aiming to extract maximum revenue from society. Olson (1993) argues that while a 'stationary bandit' might further overall welfare to some extent, this will not be the optimal point for society. Why not? If his argument is totally rational it is crucial to realise its best to maximise economic welfare. It makes little difference to firms if they are taxed through tariffs or some other way. The issue is not trade policy but the conflict of interest between politicians and officials on the one hand as well as capitalists on the other. It thus seems unlikely that a perfect autocrat will propose perfectly free trade, especially since tariffs are an easy way to extract revenue, as we have seen. If the autocrat has a limited time horizon, the problem is aggravated, according to Olson. Since no government is there forever, the likelihood of a perfect autocrat advancing free trade diminishes even further.

Compared to the other ideal regime types, the perfect autocratic government is unlikely to advance the aggregate interest of the state. All these examples show that, whilst free trade might be in the interest of states as a whole, there are reasons for all regime types not to further this interest. The high likelihood of states not advancing the collective interest, makes it extremely difficult to see trade as a collective action problem.

Enter power perspective

The conclusion that many kinds of mechanisms persuade governments not to advance the aggregate interest, opens up the possibility that goals of states will not coincide. With what? Those of society as a whole? We have seen that imagining the possibility of an overall collective interest is highly problematic, since governments actually exist to mediate between the demands of groups with conflicting interests. It also allows states to strive for certain sub-goals. A state may want free trade in certain goods, but will resist free trade in other sectors where it has been influenced by interest groups.

It may want to abolish highly restrictive export taxes, but be unwilling to stop taxing imports, because the government derives a lot of revenue from this. This makes it clear that governments are unlikely to have a common interest during trade negotiations, which in turn makes it useful to see trade as a power struggle instead of a collective action problem. These might be key issues in regional integration, that arise if we are making a realistic analysis of the options confronting both governments, societies and the particular interests that constitute them. To deal with them effectively we need to look at the trade theory literature.

This argument is partly in line with Gruber (2001). He postulates that some states may prefer the (non-free trade) status quo over free trade. However, the power of other actors to create a free trade regime without them (termed go-it-alone power), excludes the status quo as an option for these states. The second-best option might be to go along with the powerful actors, although that leaves them worse off than under trade protection. As a case study, Gruber takes the NAFTA. His argument depends on the assumption that Mexico is worse off under NAFTA than it would have been under the status quo.

The difference between Gruber's argument and mine is, that he tries to show that NAFTA was not in Mexico's interest. His argument basically is, that free trade caused political upheaval in Mexico and required a painful adaptation process, which diminished growth. This is not a very strong argument however, as one might say these are short term effects and that it is still in the long term aggregate interest of Mexico to go along with NAFTA. My argument is, that it is not necessary to show that Mexico as a whole is worse off under NAFTA. It may be sufficient to show that the government does not advance the aggregate economic interest of the country.

This seems likely, since the regime in Mexico can be characterized as clientelistic and ruled by elites. Mexico does not have to be worse off under NAFTA to argue that force played a role in it joining NAFTA. The government might simply not advance the aggregate interest. But then again, it is important to recognise that some groups' interests supported by others opposed NAFTA in Meixco, *and the USA*. Actual outcomes have also had ambiguous results, and probably benefited Mexico more. Gruber fails to recognise these complexities in order to justify his overall claim that countries can be forced to join global organisations even when it is not in their interest.

Conclusion

A central feature of the collective action model is a common interest between atomised individuals. Although all states in some theories have a common interest in free trade, I have showed that different regime types face different reasons for not taking this common interest as their own. This erodes the usefulness of the collective action perspective for analysing global trade policy. Power perspectives, such as Gruber's model of go-it-alone power might be more useful for the case of trade. In this context, it is not necessary to show that a state is worse off as a whole, it is sufficient to show that the government does not advance the aggregate interest. In this sense, the findings in this article could strengthen the explanatory power of the power perspective.

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